

Message Text

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R 082249Z MAY 75
FM SECSTATE WASHDC
TO AMEMBASSY JAKARTA

C O N F I D E N T I A L STATE 107936

E.O. 11652: GDS

TAGS: EIND, BEXP, BINV, ID

SUBJECT: KRAKATAU STEEL PROJECT

REF: JAKARTA 5422 AND PREVIOUS

1. ANTICIPATING QUERIES FROM U.S. FIRMS INVOLVED, WE WOULD APPRECIATE UPTODATE EXPOSITION OF "POLITICS OF KRAKATAU RESTRUCTURING PROGRAM" MENTIONED IN PARA TWO JAKARTA 5422. SO FAR, EMBASSY HAS REFERRED ONLY IN PASSING TO "POWERFUL INDONESIAN INTERESTS" ALLIED WITH GERMAN FIRMS (PARA SIX JAKARTA 5276), TO STICKY SITUATION REPORTEDLY CREATED BY IBNU'S BREACH OF SUHARTO'S INSTRUCTIONS BY SIGNING MEDIUM-TERM FINANCING AGREEMENT ON APRIL 16 WITH KLOECKNER (PARA ONE JAKARTA 5044), TO INDONESIAN LINKAGE OF "PERTAMINA'S POLITICAL DIFFICULTIES" WITH "USG POLICY AGAINST OPEC COUNTRIES" (PARA FIVE JAKARTA 5009), AND TO "HARD DECISIONS GOI MAY NEED TO TAKE IN REORGANIZING KRAKATAU" (DITTO).

2. AS WE UNDERSTAND SITUATION FROM JAKARTA 5009, EMBASSY IS CONCERNED THAT ANY SUCCESSFUL U.S. CONSULTANT MAY UNAVOIDABLY BECOME INVOLVED IN "KRAKATAU POLITICS", MAKE AN UNINTENTIONAL OR WELL INTENTIONED MISSTEP, GENERATE AN
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INTERNAL GOI CONTROVERSY, BE ENCOURAGED OR EVEN ASKED TO LEAVE, AND WILLY NILLY IMPLICATE USG IN ITS "ERRORS". WE WONDER WHETHER RISK TO USG POSITION IN THESE HYPO-

THETICAL CIRCUMSTANCES WOULD BE SIGNIFICANTLY GREATER THAN RISK USG WOULD FACE; SAY, IF MOBIL WERE TO COME UNDER HEAVY CRITICISM FOR SOMETHING IT DID, OR FAILED TO DO, AFFECTING ACEHNESE FARMERS AND BUSINESSMEN AT LHOKSEUMAWA LGN SITE. WOULD APPRECIATE EMBASSY ESTIMATE OF LIKELIHOOD THAT GOI WOULD ALLOW ANY DISGRUNTLEMENT IT MIGHT HAVE OVER FUTURE ACTIONS OF A US STEEL CONSULTANT (WHICH IT HAD ENGAGED WITHOUT ANY USG PRESSURE ON BEHALF OF THAT CONSULTANT) TO UPSET SERIOUSLY ITS RELATIONS WITH USG.

3. ALSO HELPFUL TO KNOW HOW SOFRASID GOT INVOLVED IN KRAKATAU PROJECT. WAS IT INVITED INTO INDONESIA SPECIFICALLY TO WORK ON THIS PROJECT?; OR WAS IT ALREADY ON SCENE IN SOME OTHER CONNECTION AND IN THIS WAY CAME TO ATTENTION OF INDONESIANS? KISSINGER

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